

590.0000 MINES AND MINERALS

590.0002 Appraisal of Oil Producing Property Encumbered by a Lease. A procedure to estimate the economic life of an oil producing property is contrary to Property Tax Rules 2(a), 8(c) and 8(d) where royalty payments are deducted from the cash flow because the resulting value of such property reflects the encumbrance of the royalty agreement under the lease. C 4/11/95.

590.0003 Appraisal Unit. Under Revenue and Taxation Code section 51(d), an "appraisal unit" is the unit that persons in the marketplace commonly buy and sell as a unit or that is normally valued separately. Property Tax Rule 469(c)(6) further defines "appraisal unit" within the context of mining property as "a mineral property that persons in the marketplace commonly buy and sell as a unit or that is normally valued separately." An appraisal unit may consist of multiple parcels and various types of property interests, including mining claims. Several factors should be considered when determining whether multiple parcels are to be valued as one appraisal unit. These factors include (1) the functional and economic integration of the parcels, (2) the attainment of highest and best use when the parcels are analyzed as a single unit, (3) contiguity, (4) common ownership, and (5) current or prior combined sales of the parcels. Thus, a group of fifteen unpatented mining claims were properly treated as one appraisal unit because the parcels were all contiguous, under common ownership, and had been transferred twice as one unit. C 3/26/2003.

590.0005 Geothermal Properties. In *Phillips Petroleum Company v. Lake County* (1993) 15 Cal.App.4th 180, the court held that the interest of a lessee under a geothermal lease having proved reserves must be assigned a base year value at the time such an interest is acquired after March 1, 1975, and that such an interest may not be reappraised annually as "new construction in progress" as the facilities to develop the resource are constructed. LTA 7/22/93 (No. 93/40).

590.0015 Oil Well Royalty Rates. Royalty payments are amounts paid to a mineral-rights owner for the right to produce oil in paying quantities. The payment is one of several expenses a producer (working interest) encounters in determining whether or not continued production is economically feasible. When economic operating conditions precipitate the abandonment of a property, it has reached the end of its economic life.

Generally speaking, the concept of "economic" rent (royalties) is not applicable to oil and gas properties, nor is the appraisal principle of substitution. The royalty amount negotiated is usually the best indicator of a proper rent for the property, which, in turn, is a reliable indicator of economic life.

In determining the value of the mineral right, as contrasted with determining the period of time the working interest will operate the well, royalty payments are the equivalent of rent; and as it provided in Property Tax Rule 8(c), they do not qualify as "gross outgo", which is subtracted from "gross return" in the income approach to value. LTA 8/6/92 (No. 92/52).

590.0018 Patented and Unpatented Claims. Unpatented mining claims create taxable possessory interests while patented claims constitute fee ownership interests. In determining when the transfer of either type interest is a change in ownership, Revenue and Taxation Code Section 61(a) is controlling. C 12/13/89.

590.0020 Proof of Labor. The filing of a proof of labor pertaining to a mining claim does not transfer a present interest, the beneficial interest, or a right equivalent in value to the fee interest in the claim. There being no extension or renewal of the possessory interest upon

PROPERTY TAX ANNOTATIONS

such a filing then, the filing of a proof of labor does not give rise to reappraisal of the possessory interest. C 7/17/80.

590.0021 Proof of Labor. If the filer of a location notice for a mining claim does not annually submit a *Proof of Labor* form (fee has been substituted for form) to the appropriate federal authority, a prima facie presumption arises that it is the intent of the claimant to abandon the claim at the end of the period during which the work (now fee) should have been performed (paid). However, if the claimant performs the required work (pays the required fee) in a subsequent year and before a crossfiler files a location notice for the same claim site, the assessor should continue to assess the claim to the original filer rather than the crossfiler on the basis that the original claimant's actions indicate non-abandonment. The assessor is not required to pass upon the condition of title to property for purposes of assessment. *Tilden v. Orange County* (1949) 89 Cal.App.2d 586. C 2/17/88.

590.0022 Proof of Labor. Effective October 5, 1992, Congress temporarily suspended the "proof of labor" requirement and substituted a \$100 per year per claim fee. The change has no impact on the assessment of such properties. LTA 10/22/93 (No. 93/64).

590.0025 Stockpiled Ore and Tailings. Materials severed from the earth by mine operators become personal property that falls into three broad categories: (1) economic-grade ores ready for processing; (2) low grade ores that will be processed in the future if and when economic conditions warrant; and (3) waste materials, i.e., tailings.

The first category qualifies as raw material held for processing and sale. As such, it is eligible for the business inventory exemption. The second category is either inventory intended for future sale or, lacking a current market, worthless personal property. It is either exempt or of no enrollable value. The third category is clearly personal property of no value. This may change when the tailings are returned to a permanent resting place and again become land and if the materials later become economic to mine. LTA 9/16/91 (No. 91/62).

590.0030 Tax Refund—Abandoned Claim. Taxes paid on an unsecured assessment for an unpatented mining claim where the mining claim was deemed abandoned and void because of a defective filing are subject to refund upon proper application for refund of taxes. C 8/24/78.

590.0035 Valuation Date. Pursuant to Property Tax Rule 469, the date of valuation of the right to produce minerals is the date such minerals undergo a change in ownership or the date the production of proved mineral reserves commences. Reserves that may not be produced for lack of legally required permits are not assessable unless the owner has started production without appropriate permits. While permits themselves are not assessable property, they may be considered part of the cost of new construction and in valuing the mineral rights when production starts, but shall not be considered for purposes of valuing the right to explore. C 8/5/96.

590.0040 Value Decline. In determining whether a value decline has occurred in a mineral property, the appraisal unit to be considered is as described in Property Tax Rule 468 subdivision (c)(6) for oil and gas properties and as described in Property Tax Rule 469 subdivision (e)(1)(C) for mineral properties other than oil, gas, and geothermal resources. The provisions of Property Tax Rule 461 subdivision (d) are not applicable to properties that are covered by a specific rule, such as Rules 468 and 469. C 3/23/88.